

Message Text

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C O N F I D E N T I A L LONDON 20214

LIMDIS GREENBACK

E.O. 11652: GDS
TAGS: EFIN: UK
SUBJECT: OPEC FINANCIAL ASSETS

TREASURY FOR WILLIAM WITHERELL, LEWIS BOWDEN, DON SYVRUD

1. AN HMTREASURY SOURCE, RESPONSIBLE FOR CIEC MATTERS,
SOUGHT OUT FINANCIAL ATTACHE TO INQUIRE OF U.S. TREASURY
POSITION CONCERNING OPEC FINANCIAL ASSETS, SUBJECT WHICH
HAS BEEN DISCUSSED IN CIEC SINCE FEBRUARY.

2. SOURCE EXPLAINED THAT HMG WAS VISITED ON NOVEMBER 24
BY MR. ROGERS OF U.S. STATE DEPARTMENT, WHO ATTENDS CIEC
MEETINGS (PRESUMABLY UNDER SECRETARY ROGERS). MR. ROGERS
DISCUSSED OIL PRICE PROSPECTS IN GENERAL TERMS, AND EX-
PLAINED STATE DEPARTMENT CAN SEE ADVANTAGES IN MEETING
SAUDI ARABIAN DEMANDS FOR PREFERENTIAL TREATMENT OF FINAN-
CIAL ASSETS. STATE IS GIVING THOUGHT TO POSSIBILITY OF
SOME KIND OF US GOVERNMENT PREFERENTIAL BOND WITH A FLOAT-
ING INTEREST RATE. MR. ROGERS STRESSED THINKING IS TEN-
TATIVE AND HAS NOT BEEN CLEARED WITH THE U.S. TREASURY.

3. HMTREASURY CONSIDERS IT VERY IMPORTANT TO REMAIN IN
CLOSE TOUCH ON THE ISSUE. UK EMBASSY OFFICIALS IN WASH-
INGTON HAVE CALLED ON THE STATE DEPARTMENT FOR FURTHER DIS-
CUSSIONS AND HAVE REPORTED THAT THE STATE DEPARTMENT "APP-
ARENTLY HAS IN MIND OFFERING A MORE STABLE AND ADVANTAGE-
OUS PLACING THAN THE US CAN NOW MAKE, PRESUMABLY AT AN
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ABOVE-MARKET RATE." IT WAS EXPLAINED TO UK OFFICIALS

(BOTH IN LONDON & WASHINGTON) THAT THE IDEA IS NOT ONE FOR IMMEDIATE PRESENTATION, BUT RATHER FOR CONSIDERATION IN THE LONGER TERM, A RATIONALE BEING THAT IF THE SAUDIS COULD BE PROVIDED WITH A MORE ATTRACTIVE MEANS OF HOLDING THEIR ASSETS, THEY COULD BE ENCOURAGED TO LIFT THEIR OIL CEILING OF 8.5 MILLION BARRELS PER DAY. HMT BELIEVES WHAT STATE HAS IN MIND IS AN INDEXED BOND.

4. HMT WOULD BE INTERESTED IN US TREASURY THINKING ON THE ABOVE AS WELL AS SOME INDICATION OF HOW DEEPLY INVOLVED US TREASURY IS IN THIS PROPOSAL. IS IT A US GOVERNMENT POSITION OR IS IT A STATE DEPARTMENT INITIATIVE?

5. SOURCE EXPLAINED HMT IS CONCERNED THAT THE IDEA IS BEING PUT FORWARD, DOES NOT UNDERSTAND WHY IT IS NECESSARY AT THIS TIME. THE SAUDIS WERE QUIET AT THE CIEC SESSIONS IN PARIS AND RESTRAINED ON THE QUESTION OF ASSET PROTECTION FURTHERMORE, INTEREST RATES IN MANY AREAS APPEAR TO BE SHIFTING FROM NEGATIVE TO A REAL RATE OF RETURN. HMT FORESEES MANY DIFFICULTIES WITH SUCH A PREFERENTIAL SECURITY, ESPECIALLY WHEN AIMED AT A SINGLE OIL PRODUCER ("THERE ARE OBVIOUS OBJECTIONS AND DANGERS INHERENT IN SUCH PREFERENTIAL TREATMENT.") GIVING SUCH TREATMENT TO ONE HOLDER ONLY IS CONSIDERED "TO HAVE OBVIOUS IMPLICATIONS FOR THE MARKETS AND FOR THE FINANCIAL SYSTEM GENERALLY."

6. PLEASE ADVISE. ARMSTRONG

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